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Presidential Address.

MODERN CURRENCY PROBLEMS.

Presidential address by F. E. Allum, delivered on 13th June, 1922.

In 1915 I read a paper before this Society on "Principles of Currency." In that it was shown that the principles laid down by Lord Liverpool in his letter to King George III., dated 7th May, 1805, had proved in practice to be sound, and that their adoption by the British Government in 1816 had put an end to currency troubles which had long distracted the country and hampered the expansion of its trade. The system was so simple, and worked so well, that by the beginning of the 20th century it seemed to most people to be merely natural and obvious. Few knew anything of the long period of chaos and loss which preceded its adoption. The basic feature was the selection of one commodity as the standard of value, and the expression of all values in terms of that standard. All other instruments of exchange, whether of metal or paper, to be subsidiary. Metallic tokens to circulate at so much more than their intrinsic value that profit could not be made by melting them. The standard recommended by Lord Liverpool was gold. The actual standard adopted in 1816 was 113 grains of pure gold, called a pound or sovereign, and issued for currency in the form of a coin weighing 123.27447 grains, of which 10.27447 grains were to be composed of alloying metal. The value of this alloying metal is not taken into account in reckoning the currency value of the coin. The currency value is the value of the gold only. (It may here be mentioned that in the early issues of sovereigns from the Sydney Mint silver was used as the alloy. In all other sovereigns the alloy has been copper.)

Standard of Value.

A thing possesses value only when somebody wants it. The degree of that want can be measured by the amount of some thing which the person is willing to offer in exchange. Values can therefore be expressed in terms of any commodity other than that of the thing desired. To facilitate the myriad exchanges of goods and of services, which are constantly taking place, it is convenient to measure all values in terms of one commodity only, that is to say, to fix upon one concrete object as the standard measure.

Values have been thus reckoned in terms of cattle, rum, sugar, wheat, beads, and a hundred other things at different times and places. The selection of gold in 1816 as the standard of value for Great Britain was the result of a long series of natural eliminations. It was chosen for its important physical properties, and because the demand for it, and the supply of it, being free from violent fluctuations, it had great stability of value. Gold is equally suitable for a medium of exchange as for a standard of value, because it can be divided without loss of value, is not subject to rust or decay, and is practically indestructible, while its small bulk in relation to its value makes it more portable than other available materials.

The question is often asked why so much regard is set on the possession of gold. The answer is that, wisely or not, human beings want it, just as they want pearls and diamonds, and in each case the want creates the value.

The use of gold as currency absorbs a large portion of the output of the mines, and by increasing the demand must also increase the value.

Jevons says that a unit of value "must consist of a fixed quantity of some concrete substance defined by reference to units of weight and space. Value may seem to some people to be a purely mental phenomenon, and a pound would then have to be defined by a sense of value. But we might as well define a yard by a sense of length or a grain by a sense of weight. Just as every quantity in physical science is defined by reference to some concrete standard specimen, so, if we are to measure and express value at all, we must fix upon definite quantities of one or more definite and unchangeable commodities for the purpose."*

When a standard of value has been chosen there will sooner or later be a tendency to regard it as something which does not alter in value. This pitfall must be avoided. It is doubtful whether anything in the world can remain at exactly the same value from one day to the next.

Before the great war all the chief commercial countries (except China) had to some extent followed the British lead, and adopted a gold standard, or one partly based upon gold. Great

* Money, by W. Stanley Jevons, p. 68.

Britain was, however, the only country where every kind of instrument of exchange could be turned into gold if required. The holder of a Bill of Exchange, for instance, could first get credit at his Bank, either by discounting the bill or waiting till it matured. He could then draw a cheque on his Bank, receive payment in Bank of England notes, and the notes could be exchanged for gold on demand.

Someone was always wanting either to buy or sell in London, and an enormous bill discounting business grew up there in consequence. Bills on London were readily accepted all over the world, and this was due in the first place to the good reputation of the accepting houses; secondly, to the stability of the currency resting as it did upon gold, but ultimately on the volume of trade.

If A had to receive payment for goods exported, B had to make payment for goods imported. All trade is at bottom barter—exchange of one thing for another—and so long, therefore, as the imports and exports remained at about the same total value, the Bill discounters and Banks could satisfy everyone without gold being moved at all. When this desirable equilibrium was lacking the excess of imports or exports was balanced by the transfer of gold. That is to say, when debts could not be paid in goods they were paid in gold. It must, however, be remembered that gold is in no essential way different from any other commodity, and that what really happened was that a reserve store of wealth was called upon. The effect would have been just the same if that store had been of iron, potatoes, or any thing whatever, so long as the creditors were willing to receive it.

Prior to 1816 Hamburg and Amsterdam were the principal money markets of the world. Subsequently the certainty that debts due in London would, whenever demanded, be paid for in a metal which would find eager buyers in every commercially civilised country helped to transfer this pre-eminence to London. British currency was composed of gold, or paper and coins which could always be exchanged for gold. In no other country was this actually and always the case. For some years before the war it was theoretically so in Germany and in the United States, but difficulties were placed in the way when the Government or the Banks deemed it inadvisable to let the stock of gold be depleted. France reserved the right to pay in silver 5-franc pieces, and no other country attempted to have a currency always exchangeable for gold. India, Japan, Brazil, Argentina, and Mexico have what is called the gold exchange system, by which there is a fixed rate at which they will buy gold with their own currency, but they do not undertake to part with gold in the same way. China is the only large silver-using country.

This was the position prior to August, 1914, and it was one which gave Great Britain a grasp of the monetary affairs of the

world which none could take away. Nothing at that time seemed more improbable than that Great Britain would ever again be faced with serious currency troubles. The financial machine, however, although it worked with ease and precision, was complicated and delicate, and, like so many other arrangements, broke down under the strain of war time conditions.

Paying for War.

Vast sums of money were raised, partly by taxation and partly by loans. Money also appeared to be made out of nothing by the issue of inconvertible notes. At first there was a large stock of gold coin (estimated in Great Britain at about £100,000,000) in the pockets of the people. This was gradually removed through the medium of the Banks and sent abroad to pay for munitions of war. It was replaced by a new form of currency—Treasury notes. Sums invested in foreign countries, particularly in the United States, were withdrawn; the capital thus released being used to purchase food and munitions in those countries.

As the present monetary chaos in Europe, and our own relatively small, but serious difficulties, are the results of war time finance, it is desirable to consider the way in which countries have provided for the cost of the war.

War is conducted by means of men, guns, horses, ships, railways, aircraft, etc. All these must be of the best kind, and the men must be trained, and the munitions provided, in the shortest possible time. A country at war is then and there the poorer to the extent of all the lives lost, and all the material used, as well as by the cessation of commercial production and expansion. The problem of paying for the war is really the question—How shall the Government apportion this loss among the people? Clearly the simplest way is by direct taxation. Loss due to a small war is easily met out of current taxation and accumulated stores. In the case of a great war these are not enough. Direct taxation sufficient to raise the whole sum brings with it such an immediate realisation of the appalling loss that is going on that the country would be inclined to stop fighting. If national existence is at stake this cannot be permitted, and Governments take the easier way of raising loans. This may seem to be the only practicable way. It is none the less a bad way, because the money is ultimately subscribed three times over. First it is subscribed by those who take up the loan, and are then and there the poorer to that extent; secondly, by the taxpayer who has to provide the money to pay the interest on the loan, and thirdly, by the taxpayer again when the loan is repaid. It is bad also because it gives a sense of having handed some of the burden on to posterity. Posterity, however, cannot pay for the war. The war has already been paid for in men and things destroyed, and all of

us are the poorer for it. Loans are a comforting opiate. They do not improve the situation. Indeed they make it worse. Mr. Hartley Withers (late Editor of the London "Economist") has written fully on this matter, and has, I think, proved beyond all question that by no manner of means can we pass on to posterity the burden of paying for the war. We can and do pass on an impoverished estate, and we hand on the obligation to repay both interest and capital to the descendents of those who lent the money, but the products of our descendents will be theirs to consume. By no financial magic can posterity really be made to lighten the burden of our actual loss.

*Withers writes:—"It is commonly said that we are still, as a nation, paying off the cost of the war that our ancestors waged against Napoleon more than a hundred years ago. But this is not so. As taxpayers we pay interest on the debt then raised. But we pay that interest to those of us who hold the debt by inheritance or otherwise. As a nation we enjoy now all that we produce, and the vagaries of our ancestors only affect the manner in which our production is distributed."

Germany was so sure of winning the war, and recouping herself out of indemnities, that from the very first she paid her way with borrowed money. Apart from the trouble that this policy must eventually bring upon Germany, it led people in Great Britain, and other lands, to indulge in a self-righteous pride in not being as bad as Germany, while all the time they were treading the same road. It is true, and is a matter for much congratulation, that Great Britain provided more of her war costs out of current revenue than any other European country, but even she raised loans on a very large scale, and some of them quite early in the war at a time when many people were asking to be taxed in order to save their country.

Inflation with inconvertible notes.

The money handed to the Government, whether as taxes or as contributions to a loan, was not in hard cash. That had already gone. People transferred some of their credit at the Banks to the Government by means of cheques, and the Government, when spending the money, made payments in notes. These had to be received as legal tender for any amount, just as if they were gold, although no promise to redeem them in gold was made.

Thus the gold standard was abandoned and the British currency became composed of paper partly supported by gold and partly by the future taxable capacity of the people. When inconvertible notes are used there is always uncertainty about the number which will eventually be issued. The ultimate value of the currency is thus doubtful. No one knows what the paper pound will buy in the

* Hartley Withers, "Our Money and the State," p. 40.

future, and risk is run in making contracts for any time but a very short one. The circumstances become something like those of the bad old days of the 17th century, about which *Mr. Lowndes, the Secretary of the Treasury, writing in 1695, said that "in consequence of the defective state of the silver coin contention daily arose. in fairs, markets, shops, and other places throughout the kingdom to the disturbance of the public peace, that many bargains and dealings were totally prevented and laid aside, which lessened trade in general; that persons before they concluded any bargain were necessitated first to settle the price or value of the very money they were to receive for their goods."

Although war time conditions practically compelled the use of paper money, it was none the less unfortunate in its results. A mass of paper money masquerading as gold has the same effect on prices as if it were gold. Let us for a moment consider what would be the effect of a sudden flooding of the world with an immense supply of gold coin. The metal being very plentiful would become cheap, and people would have to offer more of it in exchange for whatever else they wanted. That stability of value, so essential in the chosen standard of value, would be gone. Whether vast additions to the currency are made by the issue of more coin, or by the issue of paper purporting to be coin, the effect is the same. The United States is suffering from inflation of the currency, not because of the issue of notes, but because of the enormous accumulation of gold which they have received in exchange for munitions of war, etc., and which cannot now be again exchanged for goods because so many countries are ruined, and have no goods to put on the market.

The fact that the volume of currency affects prices is perhaps more easy to see if we suppose, for the moment, a currency of wheat—an old time standard of value. In a year of bountiful harvest nature would have inflated the currency. Wheat would be both plentiful and cheap. More of it would have to be offered in exchange for other things. That is to say, prices (expressed in bushels of wheat) would be high.

Considerations of the conditions which would arise with a very variable standard like that of wheat, brings the good points of the gold standard, with its relatively minute variations, into strong relief. How can trade be conducted if the measure of value is itself always changing in value? Present small bargains may be arranged, but what about big contracts running into years? What indeed about the future repayments of loans to the Government, of provision for old age, or dependents, by life insurance, or any deferred payment whatever? When none can tell what will be the real value of sums to be paid or received in the future, no one can safely enter into contracts. Fear of loss must paralyse trade.

* Liverpool, "Coins of the Realm," p. 80.

The issue of inconvertible paper money opens the door to endless inflation of the currency. In the old days people suffered so much through "debasement of the coinage," that a wholesome dread is aroused at the sound of the very words. Paper money, however, can effect a greater debasement than could be brought about by the most dishonest monarch of olden times. He might reduce the content of his coins 10, 20, or even 50 per cent., but there was still something left. Paper enables a Government (if it be foolish or frantic enough) to debase the currency to the level of utter worthlessness.

Inflation with cheques.

The gold standard once abandoned, inflation of the currency takes place not only in the form of notes, but in another, not so plainly apparent. In British communities in particular there is an extensive paper currency in the form of cheques. A banker, for reasons which he considers to be good, grants a customer credit. A sum is entered in the customer's bank account, and he can then draw cheques upon it. These he exchanges for valuable goods and services. Before the war, bankers were deterred from exercising this power too freely by the fact that the cheques were payable in gold, and resulted, after a time, in a drain upon the gold resources of the Bank. If many Banks were over-issuing credit at the same time, there was a consequent drain upon the gold reserves of the Bank of England. The Bank of England then raised its rates for loans, and so discouraged further borrowing.

It is to be noted how inflation, once started, tends to continue. Currency being cheap, prices and values are correspondingly high. A merchant wanting an advance, can produce as security goods or property valued at the enhanced prices. He will probably expect his banker to lend him the usual proportion, but based on those inflated values. If he succeeds, the very credit granted to him by the Bank will bring more paper currency into existence, in the form of cheques, and, as the cheques are no longer payable in gold, an automatic tendency to greater and greater inflation is set up. This can only be held in check when the bankers have the foresight, caution and courage to impose severe limits on the granting of credit.

It is not by the multiplication of the medium of exchange that a nation gets rich, but by the multiplication of the things which it can offer for exchange. Inflation of the currency throws an unfair burden on all persons with fixed incomes. The manufacturer, the merchant, and the workmen can and do protect themselves, but the elderly annuitant or pensioner and the man with a fixed salary is grievously injured.

Notes.

When a Bank note (like that of the Bank of England) is exchangeable for gold on demand, there is no doubt as to its value. It

is currency in a compact form useful in many circumstances. When, however, a Government issues an inconvertible note, what actually is it worth? There is no undertaking to exchange it now or at a future date, for a definite quantity of any specific thing. How then can anyone assess how much of anything it is safe to give in exchange for it? A note is issued under a name taken from the former metallic currency. Surely the use of the name should imply a confident hope, if not an undertaking, that some day it will be exchangeable for that coin.

If there should be no intention to exchange it for the coin, now, or at some future date, then it is nothing short of mendacity to call a note a pound, a franc, a mark, a rouble, or any other name which denotes some object of known and undoubted value.

If there had been no metallic currency what names could be used for these intrinsically worthless instruments? Mill suggested a measurement of values in terms of a day's work. How much, however, is that worth in food or clothing? A day's work of a carpenter might be worth a coat, but a day's work of a surgeon, or an evening's work of a music hall singer, might be worth 500 coats. Unless some tangible thing of fairly constant value be taken for the standard of value, business must be brought to chaos and standstill.

The only criterion of the value of a note is one's belief in the intention, and the ultimate power, of the Government to exchange it some day or another for some thing or another of real value. Faith in the integrity of the Government, or, better still, knowledge of steps which the Government has actually taken with the object of redeeming the note, are the only grounds upon which a note can be accepted as a thing of more value than that of the paper of which it is made.

Even though the first issues of a note may be made with a full intention of keeping something of real value behind them, the temptation to over-issue is great. Governments find that for the time at any rate it is such an easy way to get out of their difficulties. It is fortunate for us that the British and Australian Governments have not yielded to this temptation to any great degree, and are now doing what they can to reduce the volume of the note issues.

Assignats.

A notorious instance of early good intentions being completely nullified by subsequent recklessness is that of the French Assignats of 1792-96. These notes were to be issued to the amount of half the value of the national lands, for which they could be exchanged. The idea was that if the recipient did not want to buy land he could pass the assignat on to someone who did. When introducing these notes Mirabeau said: "There cannot be a greater error than the fear so generally prevalent as to the over-issue of assignats re-

absorbed progressively in the purchase of the national domains, this paper currency can never become redundant." Alas for the confidence of the politician. It was intended that the total issue should never exceed 1,200 million francs. The first issue, 400,000 francs was a complete success, and circulated at face value. Issues were continued until 3,750 million francs were out, when 100 francs in assignats could be bought for 20 francs in coin. Severe fines were imposed for not taking the notes at their face value. In 1794 the death penalty was imposed, but still the issues increased and the values decreased. By January, 1794, 5,000 million had been issued, and by 1796, 45,500 million francs were out. That was the number of genuine notes issued by the French Government, but the number was also swollen by counterfeits which had been poured into France by foreigners. In 1796 the assignats were exchanged for "mandats," at the rate of one of the new notes for every 30 of the old. These lasted in circulation for about six months, when they in turn were exchanged for silver coin at one franc for 70 francs in mandats. Thus anyone in France who, in 1792, had received 210 francs for valuable goods and services, found that the money had dwindled in less than four years to one little silver franc.

There have been many such examples in various countries during the last hundred years, and yet all the nations of Europe ventured upon this perilous paper strewn path as soon as the pinch of war expenses began to be felt. The worst example is Russia. Before the war Russia held by far the biggest reserve of gold coin in the world. By now, however, so many different authorities have issued paper roubles, and on such a scale of prodigality, that the notes have ceased to have any value at all.

Rates of Exchange.

The extent of the inflation of any currency can best be measured by the amount of it that has to be paid for in exchange for the currency of a gold-using country.

The present depreciation of the paper pound sterling is assessable by the American exchange rates, the United States being one of the few important countries which at the present time has a real gold currency. As long as the United States is in that position and Great Britain is not, New York has a chance of wresting away from London that financial lead which London in its turn took from Hamburg and Amsterdam a hundred years ago. On the basis of the gold content of a sovereign and a dollar, 4.86 dollars are equal to a pound. This rate is known as the Mint par, because it is based on the intrinsic value of the two coins as they leave the mints in new and full weight condition. The number of dollars which the paper pound sterling exchanged for

from 1915 to 1918 averaged 4.77. After that it fell considerably. The trade boom in England in 1920, and the consequent further inflation of the currency (particularly of the cheque currency) brought about a more serious fall. The lowest price, 3.28 dollars, was reached on 6th February, 1920. Recently there has been a satisfactory recovery, and the rate was quoted on 12th April last at 4.41 dollars.

The following table gives the exchange rates in London of the currencies of eight important countries in 1914, and from 1919 to 1922.

Rates of Exchange.

—		At Mint par.	1914. 11th April.	1919. 12th April.	1920. 10th April.	1921. 14th April.	1922. 15th April.
Paris	... £1 =	25·22 francs	25·16	27·90	55·00	55·00	47·80
Berlin	... „	20·43 marks	20·45	233	233	242	1,305
Vienna	... „	24·02 krone	24·02	800	835	1,475	33,000
Warsaw	... „	paper only	...	637	670	3,200	16,500
Amsterdam	... „	12·11 florins	12·07	11·45	11·52	11·29	11·64
Brussels	... „	25·22 francs	25·29	29·30	29·20	53·05	51·67
Stockholm	... „	18·16 kroner	...	17·46	17·46	16·35	16·95
New York	... „	4·86 dollars	4·84	4·65	3·99	3·91	4·41

The effect of the issue of inconvertible notes on a large scale is clearly seen. People in Germany, Austria, and Poland are of course managing to live and trade somehow, but the difficulties due to everchanging prices must be great. Those with goods to sell must at times seem to make immense profits, until the continued depreciation of the currency robs the money they have received of much of its supposed value. How some persons must have suffered can be gauged by looking at the present value of amounts accumulated in the days of the old metallic currency. A man in Vienna, for instance, who had saved 2,000 krone (about £83) a year for twenty years, and paid it into a bank account, would have had 40,000 krone (or about £1,660) to his credit. The purchasing power of that large sum is now equal to that of 29 only of the metallic krone which he saved. After laboriously saving £1,660 in twenty years, all that he can now put in his pocket is a mass of paper money equal in purchasing power to about twenty-four shillings. Austrian notes

are of so little value that I recently heard of a book which was bound in 10-heller notes, because they provided cheaper paper of the quality wanted than could be got in any other way.

The plight of Russia is worse. No rates are regularly quoted in the London market, but when prices are given they are such as to show that the paper rouble is quite worthless. In the *West Australian* of the 27th May the following cable message from London was published:—

London, May 27.

The first Soviet Russian steamer, "Karl Marx," reached Hull to-day with a cargo of timber. The vessel was decorated and displayed many pictures of M. Lenin, M. Trotsky, and other Communist leaders. The ship's doctor was wearing an ill-fitting suit, which cost about 12,000,000 roubles. His salary is about 60,000,000 roubles a month, that amount being equivalent to about £3.

According to this information roubles are worth 1s. a million, instead of 2s. 11½d. each.

Stabilising the Exchanges.

There has of late been so much variation in foreign exchange rates, and so much resultant difficulty in trading, that many persons have been seeking for some means by which the rates of exchange could be made more stable. The rates, however, do not govern the conditions of international trade and currency, they merely record what they are. Varying rates are but a symptom of disease, not the disease itself. They changed little before the war, and will again be stable whenever similar conditions of settled trade and tangible currency are re-established. One suggestion has been to take a certain average index figure of prices as normal, and then to alter the amount of gold in a sovereign, whenever the price index goes up or down with the object of ensuring that a pound would always buy about the same amount of things. This would mean that the inevitable fluctuations would be transferred from the amounts of the articles bought to the amount of the article offered in exchange for them. But if I can buy an article for a little pound on one day, and then have to give a big pound for it on another day, the price has gone up, however much I try to delude myself to the contrary. It would not water our stock or nourish our plants, if, whenever there was a drought, we were to pass a law ordering every gallon of water to be called a thousand gallons. In the same way it is difficult to see what benefit could come by calling two pounds one pound, and then saying: Behold, the price has not gone up.

The prices on which index numbers are now calculated are reckoned in a standard as precise and definite as the standards of length

or volume, and with prices so measured the index figures give reliable data for comparing one period with another. With different standards of value every three months (that is one proposal) index numbers and all other records of prices would become meaningless. It is expansion of international trade on the one hand, with currencies of some real and stable value on the other hand, that would effect the stabilising of the exchanges, and make trading far less risky than it is.

Inflation and Gold Mining.

The fall in the buying power of the paper pound sterling has had a disastrous effect on the gold-mining industry of Australia. Stores and services have risen in price, but gold, being still nominally the standard of value, cannot be disposed of (*in Australia*) for more than before. While the Government has been manufacturing paper pounds at very little cost, the mines have been producing the raw material for gold pounds at an ever-increasing cost. If used for currency in Australia the gold pound must circulate as if it were the same as the paper pound. Had there been a great mining boom and an inflation of the currency, due to the over-issue of coin, the consequent rise in prices would have had an automatic and salutary effect in checking further expansion of the industry. What has actually happened, however, is that the industry has been retarded just at a time when more gold production would have been of great value. To save the gold mines from extinction, the Commonwealth Government has permitted a Gold Producers' Association to be formed. The function of this body is to sell gold in the open market abroad for whatever it will fetch, and to divide the profit thus gained among the different mining companies. By this means a number of mines have been able to keep going, although the output in Western Australia dropped from 1,314,043 ounces fine in 1913 to 553,731 ounces fine in 1921, a fall of 58 per cent. The profit obtained by these sales abroad is less than it was a year ago. This is a healthy sign for Australia as a whole, indicating as it does, an approach to the time when the paper pound will buy a pound's worth of gold. Until, however, prices and wages fall in response to the greater buying power of the currency, this improvement will but add to the difficulty of mining without loss. The gold-mining industry is peculiarly unfortunate. In the early years of currency inflation and rising prices no arrangements existed by which it could be saved from loss. Now that the buying power of the currency is not so far removed from that of gold, the profits (in terms of the paper currency) are diminishing, while costs are keeping up.

Price of Gold in Paper Currency.

To justify its name the paper pound should buy 113 grains of pure gold. If it does not do this it is a depreciated form of cur-

rency, and the amount of its depreciation can be measured by the weight of gold that it does buy. The highest price in the paper pound sterling for which gold has been sold was £6 7s. 4d. per ounce fine on 5th February, 1920. From that date to November, 1921, there were many fluctuations, but the average was about £5 10s. 7d. On the 27th April last it was £4 13s.

When the (paper) price of fine gold per ounce is :			The paper pound buys :	Percentage less than it ought to buy :
£	s.	d.	grains of pure gold.	%
6	7	4	75	33
5	10	7	87	24
4	13	0	103	9
4	4	11½	113	(the full value)

In the two years and two months from February, 1920, to April, 1922, the Australian paper pound rose in value by 24 per cent.—an important and satisfactory advance. If this rate can be maintained the level of the gold standard will be reached in less than a year's time. Even if this should be attained, it does not follow that there will be a return to the use of gold for retail transactions, or a return to pre-war prices. If during the 26 months prices have not fallen by a similar amount (and they do appear to have done so) then gold must have depreciated in value, and gold prices themselves are higher than they were. That this is the case is indicated by high prices in the United States, where the gold standard is unimpaired. The use of gold coin for retail trade is a matter of convenience, and to some degree of health (notes being splendid germ carriers). From the currency point of view it does not matter in the least whether coin is so used or not, provided that the notes can always be exchanged for the coin *on demand*. A large store of solid wealth in the pockets of the people, however, proved to be very useful when the war broke out, and might, if re-instated, be a great help to the Government in some future similar emergency.

British and Australian Notes.

Tables are shown below giving the issues of British Treasury notes and Australian Commonwealth notes. It will be seen that whereas the Commonwealth Government holds gold to the value of 43 per cent. of the total note issue, the gold backing of the British notes has as yet reached only 16 per cent. of their total issue. Out of 319 millions in notes 266 millions are issued against Government securities. This is better than no security at all. Nevertheless the issue by the same authority of an implied promise to pay (the notes) on the security of a former definite promise to pay (bonds,

etc.) cannot be considered a satisfactory arrangement. The table shows that the British Government has recently reduced the number of notes, and thus improved the status of those that are left. It is to be hoped that peace and reviving trade will enable it to continue steadfastly on that road until the point is reached at which the paper pound will exchange for 113 grains of pure gold.

A table showing the issue of Bank of England notes is also given. These have such a large backing of gold (87 per cent.) that they are usually looked upon as "as good as gold." It is to be noticed that the Government holds some of them as security for the Treasury notes.

Inflation of the currency by notes is best corrected by the opposite process—the destruction of notes, rather than by piling up a big store of gold to support them. In the early years of the 19th century, owing to the Napoleonic wars, Great Britain had then, as now, a paper pound, and the Governors of the Bank of England were so impressed with the necessity of holding gold to support the notes that in 1815 they bought gold at 80s. an ounce standard for that purpose. That is to say that they paid £1 0s. 6d. (in notes) for £1 in gold. They could have bought the notes and burnt them at less expense. During the suspension of specie payments from 1797 to 1815 the written promise to pay for notes in gold was kept on them, presumably in the hope that the words would some day come true again. They did so after the lapse of 19 years. The same course is being followed in the case of the Commonwealth notes. The promise is still on them. We may reasonably hope that the words will be true in the case of our notes in much less than 19 years.

British Treasury Notes.

(In millions of pounds.)

—	Amount issued.	Gold coin.	Silver coin.	Bank of England notes.	Percentage of coin and Bank notes to Treasury notes.	Govt. Securities.	In Bank of England.
In April—							
1915 ...	41	27	...	...	66	8	5
1916 ...	111	28	...	...	25	76	7
1917 ...	152	28	...	...	19	115	9
1918 ...	242	28	...	...	12	209	5
1919 ...	352	28	...	...	8	318	5
1920 ...	356	28	...	6	9	321	1
1921 ...	358	28	...	19	13	311	...
1922 ...	319	28	5	19	16	266	...

AUSTRALIAN (COMMONWEALTH) NOTES.

				£
27th March, 1922—Held by Banks	...	...	31	millions
In active circulation	...	...	23	millions
Total				—
	...	...	54	millions
				—
Gold held	...	...	23	millions
Percentage of gold to total	...	...	43	per cent.
" " " notes in circulation			102	per cent.

BANK OF ENGLAND NOTES.

(In millions of pounds).

—				Issues.	Gold coin held.	Percentage of gold coin to notes.
In April—1914	...	...	...	53	35	66
1915	...	...	...	72	54	75
1916	...	...	...	75	57	76
1917	...	...	...	71	53	75
1918	...	...	...	78	60	77
1919	...	...	...	102	84	82
1920	...	...	...	130	112	85
1921	...	...	...	145	126	87
1922	...	...	...	146	127	87

During the period of currency inflation and rising prices the consumer everywhere suffered, and much was heard about the iniquities of the "Profiteer." Now that deflation has begun, it is the consumer who will benefit, and the merchant and the manufacturer lose. The position is complicated by the fact that in the meantime prices of materials and rates of pay have risen. Unless these prices and rates can again be lowered, some may find it impossible to carry on. There is, however, little likelihood of prices and wages returning to pre-war levels. Prices arose immensely during the Napoleonic wars, and never again fell to the 18th century level. The effect of war on prices has usually been an all-round permanent rise.

The depreciation of the paper pound (as shown by the sales of the Gold Producers' Association, and by the American exchange rates) is now only about nine per cent. Prices throughout the world are high, when reckoned on the old gold basis, and it needs only a small fall in (paper) prices to bring them to the gold price level. The difficulties, therefore, of the manufacturer and the merchant are not likely to be so great as many of them seem to fear. The unfortunate individual with the fixed income, however, will be wise not to look forward to any great amelioration of his lot. If he is

philosophical and altruistic, he may extract comfort by reflecting on the fact that continued high prices will make it much easier for his nation as a whole to pay off its debts.

The ideal is to have prices and values stable over long periods. It does not matter so much whether the prices are thought to be high or low, the important thing is that they should not alter, or, if they must alter, then only at a very slow rate, so that adjustments can be made without suddenly saddling one section of the community with unexpected gains, and another with unexpected and possibly crushing losses.

The United States, Mexico and Japan are the only important countries which still have a gold standard and gold coins in use. As far as the British Empire is concerned there is a steady return to the position when a note will buy as much a sovereign, that is to say, to a currency really based on gold.

The most serious problem of the future, the solution of which is at present in complete doubt, is, by what means and when, will the countries of Europe put their currencies in order. Possibly some adaption of the "gold exchange system" will present a way out of the existing chaos. Under this system gold would always be bought at a fixed price in the currency of the country concerned. That would give the notes a definite constant value in foreign countries. It would not so much matter, for instance, whether the pound bought 100 paper marks or 1,000 paper marks, so long as it always bought the same number.

Stability of trade, and consequent prosperity, depend finally on the productive power of the people of all the trading nations. Currency and financial policy are designed (or should be designed) to help production and distribution. If the crops, minerals and manufactures be not produced, the most perfect currency system is of no avail.

Trade may be likened to a machine; currency to the lubricating oil without which it cannot be used. In order to re-establish prosperity more machines (trade) are wanted, and just enough oil (currency) to keep them moving freely.
